

Message Text

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PAGE 01 PHNOM 12475 171311Z

44

ACTION EA-14

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P 171136Z SEP 74

FM AMEMBASSY PHNOM PENH

TO SECSTATE WASHDC PRIORITY 7749

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E.O. 11652: N/A

TAGS: AFSP, CB

SUBJECT: INCREASE IN LOCAL WAGES DUE TO ECONOMIC REFORM PACKAGE

REF: PHNOM PENH 12436

1. REFTEL OUTLINES SIGNIFICANT ECONOMIC REFORMS ANNOUNCED BY KHMER GOVERNMENT ON SEPTEMBER 15. OF IMMEDIATE IMPORTANCE TO EMBASSY OPERATION IS: (1) THE ADOPTION OF AN OFFICIALLY-SANCTIONED FREE EXCHANGE MARKET WHICH WILL INITIALLY RAISE THE RATE OF EXCHANGE AVAILABLE TO THE EMBASSY FROM RIELS 418.32 TO RIELS 1200 TO DOLS 1.00; (2) SUBSTANTIAL WAGE INCREASES HAVE BEEN GRANTED TO BOTH MILITARY AND CIVILIAN GOVERNMENT EMPLOYEES RETROACTIVE TO SEPTEMBER 1. THE LATTER WILL ALSO RECEIVE A FLAT INCREASE OF RIELS 4500 PER MONTH IN THEIR COST OF LIVING ALLOWANCE, LARGELY TO OFFSET THE INCREASE IN THE COST OF RICE, WHICH HAS TRIPLED.

2. SINCE GOVERNMENT DECREE DOES NOT COVER PRIVATE SECTOR, EMBASSY IS AWARE THAT ANY WAGE INCREASES FOR LOCAL EMPLOYEES WILL HAVE TO BE DETERMINED BY A SPOT CHECK WAGE SURVEY WHICH WE ARE INSTITUTING IMMEDIATELY SINCE WE ANTICIPATE THAT WAGES WILL ALSO GO UP IN THE PRIVATE SECTOR.

3. AS AN INTERIM MEASURE, EFFECTIVE SEPTEMBER 1, EMBASSY IS INCREASING THE COST OF LIVING PORTION OF LOCAL SALARIES (WHICH IS PRESENTLY 49,920 RIELS PER YEAR PLUS 25 PERCENT OF EMPLOYEES' BASE LIMITED OFFICIAL USE

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PAGE 02 PHNOM 12475 171311Z

ANNUAL SALARY) BY 60,000 RIELS PER ANNUM PLUS THE SAME 25 PERCENT.

THIS WILL SERVE MAINLY TO COVER THE INCREASE IN THE PRICE OF RICE, WHICH FIGURES SIGNIFICANTLY IN THE COMPUTATION OF THE COST OF LIVING ALLOWANCE. THE 5,000 RIEL PER MONTH INCREASE WILL COVER THE INCREASED COST OF THE ONE 45-KILO SACK OF RICE WHICH EACH EMPLOYEE PRESENTLY IS PERMITTED TO PURCHASE THROUGH EMBASSY SOURCES. WE FEEL THAT WE CANNOT TAKE ANY STEP OTHER THAN THIS WITHOUT WORKING GRAVE ECONOMIC HARDSHIP TO THE EMBASSY'S EMPLOYEES.

4. FURTHER INCREASES IN SALARIES (INCLUDING THE COST OF LIVING PORTION) WOULD BE MADE AFTER SPOT CHECK IS COMPLETED. IN VIEW OF THE 300 PERCENT INCREASE IN RIEL RATE OF EXCHANGE, THE COST OF THE ABOVE MEASURE, WHICH WILL BE \$10,000 PER ANNUM, CAN BE ABSORBED EASILY WITHIN PRESENTLY BUDGETED AMOUNTS FOR LOCAL SALARIES.

5. EMBASSY WILL IMMEDIATELY BEGIN ANALYSIS OF IMPACT THIS ECONOMIC REFORM PACKAGE ON POST BUDGET TO DETERMINE TO WHAT EXTENT SAVINGS MAY BE ANTICIPATED.

6. THIS MESSAGE HAS CONCURRENCE OF USAID, DOD, AND USIS.
KEELEY

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